

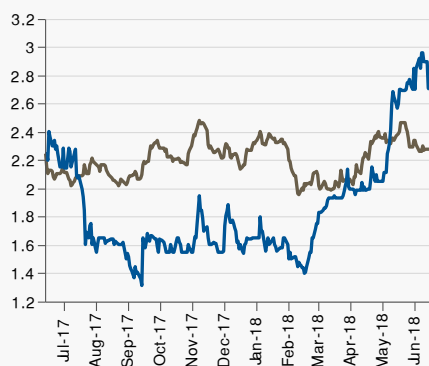
Canadian Equity Research
 14 June 2018

Sam Roach, CFA | Analyst | Canaccord Genuity Corp. (Canada) | sroach@canaccordgenuity.com | 1.403.691.7809

SPECULATIVE BUY
unchanged
PRICE TARGET C\$3.25
unchanged
Price (13-Jun) C\$2.70
Ticker RZE-TSXV

52-Week Range (C\$):	1.25 - 2.99
Avg Daily Vol (M) :	0.02
Market Cap (C\$M):	42.6
Dividend /Shr (C\$):	0.00
Dividend Yield (%) :	0.0
Shares Out., Basic (M) :	15.8
Net Debt (Cash) (C\$M):	45
NAV /Shr (C\$):	7.86

FYE Dec	2017A	2018E	2019E
Total Production	3,813.0	4,982.5	5,482.1
EV/BOEPD (C\$)	23,051	17,640	16,033
CFPS (C\$)	0.52	1.35	1.63
EV/DACF	6.9	3.4	2.9


 — RZE
 — S&P/TSX Composite Oil and Gas E&P (rebased)

Source: FactSet

Priced as of close of business 13 June 2018

Razor Energy Corp. is a ~5,000 boe/d light oil producer focused on legacy light oil pools in Alberta, Canada.

Pricing assumptions (WTI & AECO):

2018: US\$60.73/bbl & C\$1.77/mcf

LT: US\$60.00/bbl & C\$2.50/mcf

Company Update

Notes from the road; reiterate Speculative BUY and \$3.25 PT

We hosted Doug Bailey (CEO) and Frank Muller (COO) for a day of non-deal institutional investor meetings. Razor has successfully executed the first phase of its business plan, consolidating assets at Swan Hills and Kaybob, reactivating production, and reducing cash costs. Now, with a stable underlying business, Razor will take a pragmatic approach to add inventory and size, seek accretive A&D/M&A opportunities, and improve trading liquidity.

Major takeaways

- Looking to expand inventory.** Razor has an inventory of 50-100 reactivations, which would last 2+ years in a zero-growth scenario. However, with current growth plans Razor's inventory would likely be exhausted in 2019. While we would not be concerned if inventory reached the point of exhaustion (due to free cash flow potential - see next bullet), we believe the company will look to expand its inventory of 'low-hanging-fruit' through acquisitions over the next 12-months. Razor expects to be taxable in 2018, therefore tax pools would likely be high on the list of criteria for acquisition targets.
- Free cash flow potential.** Razor expects funds from operations of ~\$26M in 2018 vs. capital spending of \$42M (including acquisitions). However, 'productive' capital spending is circa \$25M, with the remainder allocated to netback enhancing projects, such as the power generation being installed in late Q2. Looking forward, Razor's 13% corporate decline rate and low capital requirements should allow the company to generate free cash flow, absent non-productive capex.
- Organic development opportunities.** Razor acquired ~25 sections of land targeting a new oil play, adding organic exploration and development potential. The leases, which include surface to basement rights, were acquired in crown land sales for ~\$110k (\$7/acre). Razor has no near-term plans to drill the land, but a new play could add drilling inventory in 2019 and beyond.
- Blending revenue.** Razor realized \$4.48/boe of 'other' revenue in Q1/18. The bulk of this revenue was from blending third party heavy oil and butane at the Pembina sales point on Razor's lease. Razor produces a 40 degree API light oil, whereas the pipeline spec is 32 degrees, allowing the company to "blend down" its barrels prior to shipping.
- Hedging downside risk, maintaining light oil upside exposure.** Razor's hedging strategy is to add downside protection at a reasonable cost, while leaving significant upside to rising light oil prices. Management plans to maintain a 12-month rolling book of 3-way hedges and naked puts. The 3-way hedges provide downside protection at US\$54.50/bbl WTI for the cost of non-participation in ~\$4/bbl of upside starting at around \$60/bbl, and a small premium.

Valuation and recommendation

RZE trades at 3.4x 2018E EV/DACF, which is a 41% discount to junior E&P peers at 8.3x and a 66% discount to our CNAV estimate.

We maintain our Speculative BUY rating and \$3.25 price target. Our price target is based on 0.4x our estimate of RZE's 2P NAV, and translates to a 3.8x multiple of 2018 EV/DACF.

Figure 1: Tear sheet

Razor Energy Corp.		Rating: Target:	SPEC BUY \$3.25	CANACCORD Genuity																																																
COMPANY STATISTICS				FINANCIAL SUMMARY																																																
Price			\$2.70	2016A	2017A	2018E	2019E																																													
Shares outstanding (MM):			15.8	Cash Flow (\$MM)	n.a.	\$7.2	\$21.3	\$25.7																																												
Shares fully diluted (MM):			15.8	CFPS - basic	n.a.	\$0.52	\$1.35	\$1.63																																												
Market capitalization (C\$MM):			\$42.6	CFPS - fd	n.a.	\$0.52	\$1.35	\$1.63																																												
Enterprise value (C\$MM):			\$87.9	Capex inc M&A (\$MM)	n.a.	\$42.6	\$38.5	\$24.0																																												
52-Week trading range (C\$):		\$1.25	\$2.99	Dividend (\$MM)	n.a.	\$0.0	\$0.0	\$0.0																																												
Average daily trading volume (000) (150 Day):			19.4	Dividend/share	n.a.	0.00	0.00	0.00																																												
Dividend Yield			0%	Net Debt (surplus) (\$MM)	n.a.	\$24.7	\$47.7	\$48.9																																												
Projected 12-month return:			20%	Trailing net debt/cash flow	n.a.	3.4	2.2	1.9																																												
OPERATING AREAS				NETBACKS (\$/boe)																																																
				<table border="1"> <thead> <tr> <th></th> <th>2016A</th> <th>2017A</th> <th>2018E</th> <th>2019E</th> </tr> </thead> <tbody> <tr> <td>Revenue (post hedging)</td> <td>n.a.</td> <td>\$52.15</td> <td>\$58.29</td> <td>\$59.64</td> </tr> <tr> <td>Royalties</td> <td>n.a.</td> <td>\$9.87</td> <td>\$12.69</td> <td>\$14.64</td> </tr> <tr> <td>Operating Costs</td> <td>n.a.</td> <td>\$29.41</td> <td>\$27.89</td> <td>\$26.00</td> </tr> <tr> <td>Transportation Costs</td> <td>n.a.</td> <td>\$0.00</td> <td>\$0.00</td> <td>\$0.00</td> </tr> <tr> <td>Field Netback</td> <td>n.a.</td> <td>\$12.87</td> <td>\$17.71</td> <td>\$19.00</td> </tr> <tr> <td>G&A Costs</td> <td>n.a.</td> <td>\$4.25</td> <td>\$3.19</td> <td>\$3.25</td> </tr> <tr> <td>Interest/Taxes/Other</td> <td>n.a.</td> <td>\$3.09</td> <td>\$2.81</td> <td>\$2.89</td> </tr> <tr> <td>After Tax Netback</td> <td>n.a.</td> <td>\$5.52</td> <td>\$11.70</td> <td>\$12.86</td> </tr> </tbody> </table>					2016A	2017A	2018E	2019E	Revenue (post hedging)	n.a.	\$52.15	\$58.29	\$59.64	Royalties	n.a.	\$9.87	\$12.69	\$14.64	Operating Costs	n.a.	\$29.41	\$27.89	\$26.00	Transportation Costs	n.a.	\$0.00	\$0.00	\$0.00	Field Netback	n.a.	\$12.87	\$17.71	\$19.00	G&A Costs	n.a.	\$4.25	\$3.19	\$3.25	Interest/Taxes/Other	n.a.	\$3.09	\$2.81	\$2.89	After Tax Netback	n.a.	\$5.52	\$11.70	\$12.86
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Base NAV				n.a.	\$7.86																																															
P/NAV				n.a.	0.3x																																															
Target EV/DACF				n.a.	7.7x	3.8x	3.2x																																													
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Target EV/2P BOE				n.a.	\$5.91																																															
Target P/NAV				n.a.	0.4x																																															
COMMODITY PRICE ASSUMPTIONS																																																				
				2016A	2017A	2018E	2019E																																													
WTI oil (US\$/bbl)				\$43.27	\$50.84	\$60.73	\$60.00																																													
NYMEX gas (US\$/MMbtu)				\$2.49	\$2.95	\$2.89	\$3.00																																													
Realized oil & NGL (C\$/bbl)				n.a.	\$61.15	\$67.59	\$69.00																																													
Realized natural gas (C\$/Mcf)				n.a.	\$1.94	\$1.68	\$2.30																																													
RESERVE DATA																																																				
				2016A	2017A																																															
Liquids (mmbbls)				14,389	18,327																																															
Natural Gas (Bcf)				11,680	12,000																																															
Total P+P (mboes)				16,336	20,327																																															

Source: Company Reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: June 14, 2018, 08:35 ET

Date and time of production: June 14, 2018, 08:35 ET

Target Price / Valuation Methodology:

Razor Energy Corp. - RZE

Our target price of C\$3.25 is a 0.4x multiple to our CNAV and reflects a 2018E EV/DACF multiple of 3.8x.

Risks to achieving Target Price / Valuation:

Razor Energy Corp. - RZE

Key risks to achieving our target price include, but are not limited to, commodity prices, foreign exchange rates, project execution, geological uncertainty, inaccurate reserves evaluations, operational, environmental, regulatory, fiscal policy, key personnel, and the ability to obtain financing.

Distribution of Ratings:

Global Stock Ratings (as of 06/14/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	573	61.68%	42.23%
Hold	231	24.87%	25.11%
Sell	22	2.37%	18.18%
Speculative Buy	103	11.09%	64.08%
	929*	100.0%	

*Total includes stocks that are Under Review

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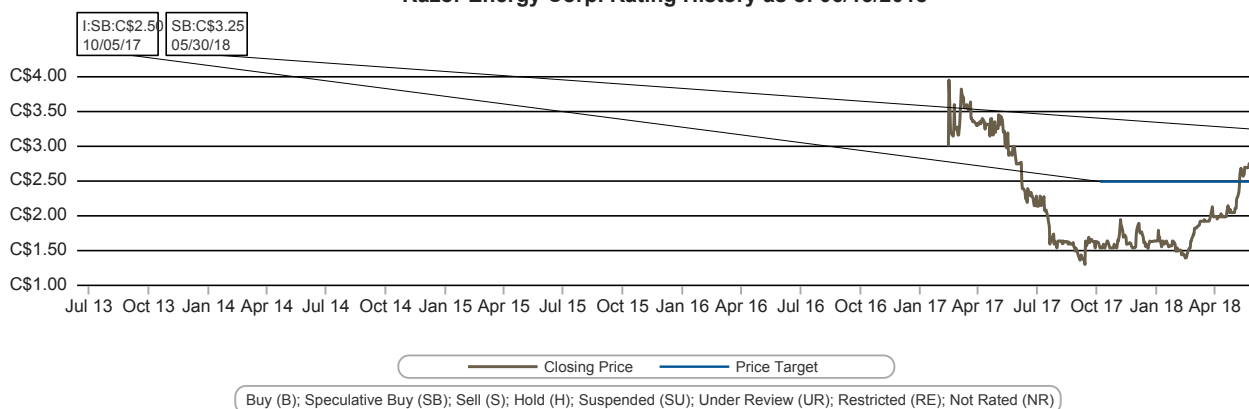
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Razor Energy Corp. Rating History as of 06/13/2018



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